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ABSTRACT

School districts in Illinois are supported by revenues received primarily from local property taxes. Since the amount of local funds generated to support schools are affected by differences in property wealth, and property wealth is inequitably distributed, the funds available to provide an education to each student are also inequitably distributed. This funding inequity is the result of changes in school enrollments, property wealth, state policy, and tax efforts. An equitable funding system would allow no more than a 1.5 to 1 ratio between the 95th and 5th percentile districts in peer pupil revenue or in operating tax rates per $100 in assessed valuation. Six funding options were evaluated to ascertain the extent to which each option would provide an equitable funding system, they are: the statewide foundation property tax option; the excess value state property tax option; the county assumption option; the increased foundation level option; and the income tax/property tax offset option. Developed analyses of the first four options are offered with nine tables that illustrate financial comparisons of each option and the original funding system. An additional table is appended. (EJS)

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# Ed Equity Coalition

## Overcoming

## The Inequities in Illinois School Finance

### An Analysis of Options towards Equity

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This report has been compiled by the Options Task Force of the EdEquity Coalition. This coalition was convened in 1990 by the Chicago Urban League, the League of Women Voters of Illinois, and the Chicago Panel on Public School Policy and Finance. The following organizations are members of the EdEquity Coalition:

American Jewish Committee
Chicago Panel on Public School Policy and Finance
Chicago Principals Association
Chicago Region PTA
Chicago Urban League
Cities in Schools
Citizens Schools Committee
Community Renewal Society
Designs for Change
First Congressional District Education Task Force
Illinois Rainbow Coalition
League of Women Voters of Chicago
METRO (United Methodist Church)
Mexican American Legal Defense and Education Fund
Northeastern Illinois University - Center for Inner City Studies
Parent Community Council
Parents United to Reform Education
Roosevelt University
Youth Guidance

This report was prepared by staff from the Chicago Urban League and the Chicago Panel on Public School Policy and Finance. The Joyce Foundation has provided support to both organizations in their effort to provide the public with information about school finance equity.

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On November 13, 1990, 47 school districts, known as the Committee for Educational Rights, filed suit against the State of Illinois charging that the current disparity in spending on public primary and secondary education violates the equal protection and the education clauses of the state constitution. While the state Supreme Court will determine the constitutionality of current school funding, the state legislature ultimately will be responsible for formulating a solution. This report, and its predecessor, provide the basic data for policy makers to assess the problem and to initiate change.

The EdEquity Coalition, comprised of 19 Chicago based not-for-profit organizations, prepared its initial report, *The Inequities in Illinois School Finance*, to provide the citizens of Illinois with an analysis of current inequities in school finance, the historical roots of those inequities, and an analysis of alternative options for funding primary and secondary education. The first report was intended to open the dialogue regarding the best method to redress current educational funding inequities.

This second report, an addendum, provides a brief overview of the first report and an analysis of the options still under consideration by the EdEquity Coalition. The four options assessed in this report are: the State-wide Foundation Property Tax option; the Excess Value State Property Tax option; the State Non-Residential Education Property Tax option; and the County Assumption option.

## Illinois' Current Education Finance Situation

Schools in Illinois are supported by revenues received from local property taxes, state distributive aid and categorical grants, and federal grants. The balance of these sources of support varies from district to district due to differences in property wealth, tax rates, and the number of students qualifying for special assistance from the state and federal government. State and federal grants are designed to provide extra assistance to students who have special needs related to poverty, handicaps, language barriers, or vocational orientation. General state aid is provided to attempt to equalize some of the differences in taxable property wealth between districts. However, some variations in property wealth between districts are so great and the relative level of state support so low, that the disparity in revenues available to support the education of individual students has reached intolerable levels, exceeding a ratio of 5 to 1 at the extreme.

School districts receive local revenues primarily from local property taxes. The County Assessor establishes the value of all property within each county upon which the state applies a multiplier to equalize the assessment of property across counties, this value is defined as Equalized Assessed Valuation (EAV). A district sets a tax rate which is then applied to the value of each taxpayer's property to determine each individual's tax bill. County officers then collect taxes for schools along with all other property taxes levied by cities and towns, park districts, and other taxing bodies. School tax receipts are then distributed to each district from which they were generated. Most school districts also

receive small amounts of revenues from other local sources such as student fees, interest on deposits, bonds, etc. In 1988-89, the most recent year for which audited data was available, all local sources combined provided $5.0 billion for public elementary and secondary schools.

The State of Illinois provides revenues to local school districts through two distinct methods. Distributive Aid (also known as General State Aid) is assistance from the state which is designed to assure that all school districts have at least a minimum level of support for each student. This amount is called the foundation level. In 1988-89, the foundation level was $2,146 per pupil. School districts which could not raise that minimum level of revenues through the use of a state determined qualifying tax rate, would be assured of enough state support to achieve the foundation level of funding. In 1988-89, the State of Illinois distributed $1.8 billion in distributive aid.

The state also provides special grants to school districts to provide particular services to special categories of students. These grants are known as categorical grants. Similarly, the federal government provides support to individual school districts for specific purposes. In 1988-89 the state distributed $700 million in categorical grants to school districts, while the federal government provided $500 million to school districts in Illinois.

Total support to school districts in Illinois in 1988-1989 was $7.9 billion. Of that amount, 62.8 percent came from local sources, 31.5 percent from state sources, and 5.7 percent from the federal government. Thus, it becomes apparent that local sources provided the dominant share of funds for public schools. Since the amount of local funds generated are affected by differences in property wealth, and property wealth is inequitably distributed across the state, the funds available to provide an education for each student are inequitably distributed. It is on this basis that the EdEquity Coalition believes that the current public education funding system in Illinois is unconstitutional.

## Causes Of Inequality

The extreme funding inequity is the result of changes in four key areas: school enrollments, property wealth, state policy, and tax effort. School enrollments have declined by 600,000 since 1973, while, during the same period, the number of low income students has grown from about 319,000 to over 500,000. This is a percentage growth in low income students of fourteen percent, from 13.8 percent to 27.8 percent of the state's student population.

Another cause of inequity is related to shifts in property wealth. Property values in the Chicago metro area have increased by $25.1 billion (a 53.6% increase) between 1981 and 1988 due to dramatic increases in residential, commercial and industrial property values. Property value in the 96 downstate counties, on the other hand, decreased by $1.5 billion

(a 5% decrease) over the same period. Downstate devaluation resulted from dislocations in the economy and a legislatively mandated farm land reassessment designed to protect income-poor, property-rich farmers.

Furthermore, changes in state educational policy have heightened student funding inequities. In 1980, the state legislature amended the state aid formula to eliminate incentives for school districts to raise local tax rates in order to receive greater state aid; in 1978 and again in 1982, the General Assembly reduced the poverty weighting factor which provides extra support for economically disadvantaged students and thereby increased support for districts with moderate levels of disadvantaged students, while aid to districts with high concentrations of low income students was decreased.

Finally, unequal tax effort between districts has fueled inequity for both students and taxpayers. For example, in northern Cook County, the Niles Elementary School District (No. 73) taxed itself at only $0.99 per $100 EAV in 1989-90; in contrast, in southern Cook, the Park Forest Elementary School District taxed its property owners at $6.51 during the same year. Despite high tax effort, property poor Park Forest realized only $2,200 per pupil from property taxes compared to $6,200 raised in property rich Niles. Taxpayer inequity translates directly into inequitable educational opportunities. In Niles, there were approximately 10.2 elementary pupils per teacher, whereas Park Forest averaged 21.4 pupils per teacher.

Currently, 145 of the 957 Illinois school districts tax themselves below the state's qualifying rate. Due to limited amounts of property wealth (EAV) and these low tax rates, 86 of the 145 districts provided less than the state foundation level of funding for their students. At the opposite end of the property wealth scale, 21 of the 145 low taxing districts who have high property wealth, were able to provided more than twice the foundation level of funding for their students.

## Definition of Equity

There are two primary equity issues in funding public education: **differences in revenues per pupil** and **variations in taxpayer burden**. In order to judge the ability of various funding options to reduce the current disparities in Illinois, the EdEquity Coalition has adopted the following definitions of equity:

**Equity in Per Pupil Revenues:** An equitable funding system would allow no more than a 1.5 to 1 ratio between the 95th and the 5th percentile districts in per pupil revenues. This equity measure only evaluates revenue from General State Aid and local property taxes, while excluding state categorical and federal grants, since those revenues are intended to meet special needs of qualifying students.

**Taxpayer Equity:** An equitable funding system would allow no more than a 1.5 to 1 ratio between the 95th and the 5th percentile districts in operating tax rates per $100 of Equalized Assessed Valuation. The EdEquity Coalition also believes that it is important to maintain a balance between the corporate and individual tax burdens.

## Funding Options

The following six synopses cover those options which The EdEquity Coalition has analyzed to date to ascertain the extent to which each option achieved our definition of equity. The EdEquity Coalition is continuing to evaluate the first four options (a more developed analysis of these options follow in the next section), while the last two options are no longer under consideration by the EdEquity Coalition.

The first three options offer various forms of a state-wide property tax for education. This notion, of a state-wide property tax to fund primary and secondary education, is in fact a return to Illinois' past. For roughly a half century, Illinois utilized a state property tax to fund its elementary and secondary education, but discontinued that practice during the 1920s.

### State-Wide Foundation Property Tax Option

This option is a three tiered option which combines: (1) a flat grant of $2,000 per weighted student funded by a state-wide property tax; (2) the distribution of General State Aid funds through the current school aid formulas; and, (3) limited local liberty over operating tax rates. By levying tax rates of $2.71 per $100 of EAV on elementary districts, $1.54 on high school districts, and $4.24 on unit districts to fund the first tier; distributing the same level of General State Aid funds as in 1989-90 through the second tier; and setting the limited local liberty at $1.00 for elementary districts, $.50 for high school districts, and $1.50 for unit districts, this option would achieve the EdEquity Coalition's definition of equity in revenues per pupil (1.5 to 1) for high school and unit districts, while just barely exceeding the equity measure among the elementary districts.

### Excess Value State Property Tax Option

This option creates a state mandated EAV cut off level which separates a district's EAV into two components: the base level remains under the taxing authority of the local district; the excess, which includes all EAV above the cut off level, would come under the taxing authority of the state. Revenues from this state taxed "excess value" EAV would be added to the Common School Fund and distributed through the current General State Aid formulas. With a limited local liberty, this option produces substantial improvements in the student revenue equity measures.

**State Non-Residential Education Property Tax Option**

This proposal applies a state-wide Educational Tax Rate (ETR) to all commercial, industrial, and other non-residential property, and removes it from the local school district tax base. The resulting revenues would be added to the State's Common School Fund and distributed to the districts in accordance with the current school aid formulas. Using the 1989-1990 school year as a base and setting the ETR at $3.72 per $100 of EAV, this option would raise the state foundation level to $2,749. This option would achieve the EdEquity Coalition's definition of equity in revenues per pupil (1.5 to 1) for elementary and unit districts, while just barely exceeding the equity measure among the high school districts.

**County Assumption Option**

This option, a version of which was recently adopted in Texas, would pool all property value in each county and levy a common tax rate against it for schools. The revenues generated from these property taxes would be distributed on a per pupil basis to each district in the county. General State Aid would be used to equalize differences between counties, and would also be distributed equitably to the districts. This option eliminates the inequities in both taxpayer and per pupil revenues which currently exist within counties. However, large inequities would still exist between counties because of the significant disparity in industrial, commercial and residential property wealth between counties.

**Increased Foundation Level Option**

The foundation level is the minimum financial support, from both state and local sources, which the state guarantees. For the 1989-1990 school year the state guaranteed $2,384.25 per weighted student. One option to achieve a more equitable funding system in Illinois is to increase the foundation level of support which the state guarantees. This option would reduce the disparity in funding by increasing revenues for the poorest districts. Under the current system, the state would need to provide a foundation level of approximately $4,200 per weighted student to achieve an equitable funding system. To accomplish this level of support, the state would need to increase its funding level by roughly $3.325 billion. To raise these funds, the state, if it so chose, would need to raise the personal income tax rate from its current rate of 3% to 5.25%, with the increase dedicated entirely to education.

**Income Tax-Property Tax Offset Option**

This option proposes offsetting a decrease in the local property tax with an equivalent dollar increase generated through the state income tax. The purpose of this option is to alleviate the property tax burden by shifting the source of education revenues from property

taxes to income taxes. This proposal has no effect on per pupil revenue inequity between school districts, and has only a slightly positive impact on taxpayer equity. However, under the EdEquity Coalition's simulation of this option, corporate taxpayers would pay $133 million less in taxes state-wide while individual taxpayers would be required to pay $133 million more in taxes.

**Further Analysis of Funding Options**

The EdEquity Coalition is still examining the four options which provide a more equitable access to property value across the state. The analysis of the State Non-Residential Education Property Tax option and the County Assumption option are similar to those included in the Coalition's first report. The other two options, the State-wide Foundation Property Tax option and the Excess Value Property Tax option, are new options the EdEquity Coalition have recently evaluated.

All of the options were evaluated in their most basic forms. This was done in order to assess the assets and liabilities of the various components of each individual model. It is the Coalition's hope that through this type of analysis, it will be able to recommend an option, or combination of options, which best achieves the goals of equity and adequacy in funding the education of Illinois' children. Also, each option was evaluated at 1989-90 funding levels. Additional state support above current levels would improve both the level of equity and the level of adequacy of educational services available to the state's children under all options analyzed.

An additional goal of the EdEquity Coalition is to recommend an option which increases the median level of education revenues for the children of this state, and thus, does not achieve equity at the expense of adequacy.

Additional components which could be added to any recommended option, and are being evaluated by the Coalition, are: a cost of education index; restoration of the poverty impaction weighting factor back to its 1973 level; institution of a state mandated minimum operating tax rate; and the redistribution of state funds currently allocated to districts which are classified as "Flat Grant" or "Alternate Method" districts.

A cost of education index could be used to adjust for the varying costs of providing education throughout the state. The index utilized by the EdEquity Coalition was the McMahon Index developed by Professor Walter McMahon of the University of Illinois, Urbana-Champaign. Using this index on the current distributional system would move the 95/5 equity measure from: 2.48:1 for elementary districts to 2.29:1; 2.38:1 for high school districts to 2.09:1; and 1.38:1 for unit districts to 1.42:1. Thus, the degree of inequity for elementary and high school districts becomes slightly lower, while the inequity in unit districts becomes slightly greater.

The poverty weighting factor was added to the 1973 school finance formula to help districts provide extra support for low-income students. The formula gave additional weighting to economically disadvantaged students by comparing the district's proportion of low income students to the proportion of such students in the state as a whole. The resulting ratio was then multiplied by a constant (0.375). The resulting weighting, which had a maximum allowable level of 0.75, was then multiplied by the student count of low income students and added to the district's weighted count. Thus, in 1973, low income students in districts with high concentrations of such students, could be counted as highly as 1.75.

In 1978, the General Assembly decreased the poverty weighting factor, reducing the maximum allowable weighting from .75 to .675. By 1982, the maximum weighting had been further reduced to its present level of .625. These reductions in the weighting factor have reduced state aid to districts with heavy concentrations of low income students. There were 20 districts whose revenues were limited by the poverty weighting cap in 1988-89. Thus, one potential equalizing change in any option would be the restoration of the cap on the poverty weighting factor to its 1973 level of .75. This would have the effect of focusing more resources on those districts which have high percentages of low-income students.

Another factor which the EdEquity Coalition is evaluating is the institution of a state mandated minimum operating tax rate for education. By setting a floor below which no district can tax, the taxpayer equity measure would improve significantly.

The final adjustment which has been discussed throughout the state, and finally evaluated here, is the reallocation of funds currently distributed to "Flat Grant" or "Alternate Method" districts. Recapturing the revenues of only "Flat Grant" districts does not provide sufficient revenues to have any significant impact on the student revenue equity measures. By recovering all "Flat Grant" districts' General State Aid funds, the state would only be able to reallocate roughly $9 million to poorer districts. If "Flat Grant" districts' General State Aid funds and categorical funds were recaptured, the state would accumulate approximately $23 million to reallocate.

Recapturing the General State Aid funds allocated to "Alternate Method" districts would provide the state with an extra $63 million to reallocate, while "Alternate Method" districts' categorical funding would provide an extra $84 million on top of that. Thus, beyond the fact that the state has an obligation to fund state mandated categorical programs, the state would not recover a large enough sum of revenues from recapturing the state revenues currently allocated to the slightly more than 200 "Flat Grant" and "Alternate Method" districts to produce any significant improvement in student revenue equity through this proposal.

Finally, before the four options which are still under consideration by the EdEquity Coalition are more fully developed, it is important to note that all equity calculations exclude state categorical and federal revenues.

**State-wide Foundation Property Tax Option**

This option is a three tiered option which combines: (1) a flat grant per weighted student funded from a state-wide property tax; (2) distribution of General State Aid funds through the current three school aid formulas; and (3) limited local liberty over operating tax rates. This three tiered system combines the notion of a state funded foundation level, an equalizing factor, as well as a limited degree of local control over a district's tax rates.

Revenues for the first tier, a guaranteed flat grant of $2000 per weighted student funded by the state, would be generated through the assessment of a state mandated and collected operating school tax rate of $2.71 per $100 of EAV on elementary districts, $1.54 on high school districts, and $4.24 on unit districts. These rates would generate approximately the same amount of revenues as if only high school and unit district EAV were taxed at a rate of $4.24. Thus, all property owners in the state would pay the same state property tax rate. This state-wide property tax would generate slightly more than $3.9 billion.

In order to assess this option in its most ideal form, the state mandated operating tax rates would be the new operating tax rate for each district.

The second tier of this option is identical to the current distribution of General State Aid funds through the three school aid formulas. This tier distributed $2.077 billion in appropriated General State Aid funds in 1989-90.

The third tier would allow districts limited local liberty over their operating tax rate. This proposal would allow a district to increase its operating tax rate by up to $1.00 per $100 of EAV for elementary districts, $.50 for high school districts, and $1.50 for unit districts.

For the simulation of this option, tax rates were increased only for districts which received less funding under the first two tiers, as compared to the current system. If a district received less funding under the first two tiers, the limited local liberty tier enabled a district to raise its operating tax rate just enough to offset its losses, up to a maximum increase of $1.00 per $100 of EAV for elementary districts, $.50 for high school districts, and $1.50 for unit districts.

Table 1 evaluates the simulation of this option, both without and with the limited local liberty tier, against the current funding system in terms of both student equity and taxpayer equity using the ratio of the 95th percentile district to the 5th percentile district. As defined by the EdEquity Coalition, equity on these measures is a ratio of 1.5:1 or less.

**TABLE 1**

| DIST. TYPE | STUDENT REVENUE EQUITY | | | TAXPAYER EQUITY | | |
|---|---|---|---|---|---|---|
| | CURRENT | W/O L.L.L. | W/L.L.L. | CURRENT | W/O L.L.L. | W/L.L.L. |
| ELEM. | 2.48:1 | 1.80:1 | 1.70:1 | 2.15:1 | 1:1 | 1.37:1 |
| H.S. | 2.38:1 | 1.74:1 | 1.31:1 | 1.85:1 | 1:1 | 1.32:1 |
| UNIT | 1.38:1 | 1.72:1 | 1.41:1 | 1.61:1 | 1:1 | 1.28:1 |

Note: W/O L.L.L. = variation without limited local liberty.
W/L.L.L. = variation with limited local liberty.

Table 2 shows the number of school districts which gained or lost revenues per weighted student under this option. Those school districts classified as "Large Gain", increased revenues by more than $250 per weighted student, while "Small Gain" districts had increases of $0 to $250 per weighted student. Districts classified as "Large Loss" had decreases in revenues of more than $250 per weighted student, while "Small Loss" districts had decreases of $1 to $250 per weighted student.

When districts were allowed to exercise additional local taxes, only 141 districts lost revenues under this option. Without the limited local liberty tax changes, 350 districts lost some revenues.

**TABLE 2**

| DIST. TYPE | DISTRICTS GAINING REVENUE | | | | DISTRICTS LOSING REVENUE | | | |
|---|---|---|---|---|---|---|---|---|
| | SMALL GAIN | | LARGE GAIN | | SMALL LOSS | | LARGE LOSS | |
| | W/O | W/ | W/O | W/ | W/O | W/ | W/O | W/ |
| ELEM. | 32 | 137 | 190 | 196 | 23 | 19 | 171 | 64 |
| H.S. | 6 | 28 | 36 | 36 | 7 | 5 | 66 | 46 |
| UNIT | 45 | 119 | 299 | 301 | 18 | 2 | 65 | 5 |
| ALL DISTS. | 83 | 284 | 525 | 533 | 48 | 26 | 302 | 115 |

Note: W/O = Simulation without limited local liberty.
W/ = Simulation with limited local liberty.

**Excess Value State Property Tax Option**

This option separates a district's EAV into two components: the first, which includes property values up to an established level, such as the state-wide average EAV per weighted pupil, is taxed by the local district; and the second tier, which includes all property value in a district above the established level, would be taxed by the state. Revenues from the latter segment would be added to the Common School Fund and distributed through the current General State Aid formulas.

For the simulation of this option, the EAV excess value cut off level for unit districts was established by dividing the total EAV in the state (the sum of all high school and unit districts' EAVs were used), by the total weighted student count in the state. To calculate the value for elementary school districts, the unit district cut off level was multiplied by 13/9, and to calculate the cut off level for high school districts, the unit district cut off was multiplied by 13/4, reflecting the number of grades of students in each type of district (K-12 = 13 grades). This method enhances equity between types of school districts.

The cut off levels were: $68,280 EAV per weighted pupil for elementary districts; $153,630 for high school districts; and $47,270 for unit districts. The tax rates assessed on the excess property values were $3.00 per $100 of EAV for elementary districts; $1.50 per $100 of EAV for high school districts; and $4.50 per $100 of EAV for unit districts.

Table 3 and 4 compare the 95/5 percentile ratio for both student revenues and taxpayer rates for three variations of this option. Each successive variation increases the allowable limited local liberty over operating tax rates. As defined by the EdEquity Coalition, equity on these measures is a ratio of 1.5:1 or less.

The first variation allows a limited local liberty which enables districts to raise their operating tax rate (OTR) just enough to offset lost revenues, up to a maximum rate of $1.70 per $100 of EAV for elementary districts, $1.70 for high school districts, and $3.05 for unit districts. These are roughly the current allowable limits to which school districts can raise their rates without going to their voters for approval.

The second variation of this option allows a limited local liberty which enables districts to raise their OTR just enough to offset lost revenues, up to a maximum rate of $4.28 per $100 of EAV for elementary districts, $4.28 for high school districts, and $5.10 for unit districts. These rates are roughly the maximum allowable rates with the approval of a district referendum.

The third variation of this option allows a limited local liberty which enables districts to raise their OTR just enough to offset lost revenues, up to a maximum rate of $4.50 per $100 of EAV for elementary districts, $2.00 for high school districts, and $6.50 for unit districts. These rates, while high, provide equitable tax rates between district types.

Levels of equity and adequacy under this option are highly affected by the cut off level on EAV per weighted student that are adopted and the tax rates placed on the EAV reserved for state purposes. In the simulation of this option, more than $750 million was added to General State Aid which would raise the foundation level to $2,693. This amount enabled more than two-thirds of all Illinois school districts to gain more than $300 per weighted student.

**TABLE 3**

| DIST. TYPE | STUDENT REVENUE EQUITY | | | |
|---|---|---|---|---|
| | CURRENT | W/O REFER. | W/REFER. | SIMULATED HIGH |
| ELEM. | 2.48:1 | 1.40:1 | 1.65:1 | 1.76:1 |
| H.S. | 2.38:1 | 1.59:1 | 1.97:1 | 1.59:1 |
| UNIT | 1.38:1 | 1.25:1 | 1.28:1 | 1.28:1 |

Note: W/O REFER. = local liberty which does not require voter approval.
W/ REFER. = local liberty which requires voter approval.
SIMULATED HIGH = local liberty cap of $4.50 for elem., $2.00 for high schools, and $6.50 for units.

**TABLE 4**

| DIST. TYPE | TAXPAYER EQUITY | | | |
|---|---|---|---|---|
| | CURRENT | W/O REFER. | W/REFER. | SIMULATED HIGH |
| ELEM. | 2.15:1 | 1.93:1 | 2.60:1 | 2.73:1 |
| H.S. | 1.85:1 | 1.74:1 | 2.15:1 | 1.74:1 |
| UNIT | 1.61:1 | 1.57:1 | 1.59:1 | 1.59:1 |

Note: W/O REFER. = local liberty which does not require voter approval.
W/ REFER. = local liberty which requires voter approval.
SIMULATED HIGH = local liberty cap of $4.50 for elem., $2.00 for high schools, and $6.50 for units.

**State Non-Residential Education Property Tax Option--Revised**

This option attempts to address the underlying cause of the disparity in education revenues per pupil between districts, the large variation in property wealth, primarily non-residential property, between districts. By reclassifying taxing authority over certain types of property, this proposal would dramatically reduce the disparity in property wealth (EAV) between school districts. This reclassification, by removing the uniquely local effects of the location of shopping centers, industrial parks, nuclear generating plants, and other non-residential property, would allow that property wealth to be more widely accessed throughout the state. A state mandated Educational Tax Rate would be assessed against all non-residential properties in order to generate new revenues for the State's Common School Fund. As with the other state-wide property tax options, this would enable the state's share of education funding, as a percentage of total education spending, to increase.

Under the current funding system, local school districts include every type of property (residential, commercial, industrial, farm, etc.) when calculating their total equalized assessed valuation (EAV). Local property tax revenues are then generated by multiplying the district's total EAV by its operating tax rate.

For purposes of calculating the state's share of education funding under the current system, a district's wealth, its General State Aid-EAV, (GSA-EAV) is determined by adding a district's total EAV to its derived assessed valuation attributed to Corporate Personal Property Replacement Tax (CPPRT) receipts. This wealth value for a district is then used to determine which of the three state education funding formulas (Special Equalization Method, Alternate Method, or Flat Grant Method) is used to calculate the amount of General State Aid it would receive.

While this proposed option does not change the current funding formulas, it significantly redefines district wealth. To calculate a district's property wealth (GSA-EAV) for state funding calculations under this option, only the district's residential EAV is added to its derived value of Corporate Personal Property Replacement Tax (CPPRT) receipts. To calculate education funding from local property tax receipts, the district's operating tax rate would be multiplied only by its residential EAV.

It should be noted that this reallocation of non-residential property wealth applies only to raising revenues for primary and secondary education. Municipalities and other taxing districts would continue to tax non-residential property for their services.

The analysis of this option was performed using an Educational Tax Rate of $3.72 per $100 of EAV assessed against only EAV in High School and Unit districts in order to prevent double taxation of property. Applying this tax rate against the newly created non-residential state property tax base, the state would generate $1.77 billion dollars to be added to the Common School Fund for primary and secondary education. This additional state revenue, distributed through the current school aid formulas, would raise the foundation

level to $2,749 (up from $2,384.25 for 1989-90).

Four variations of this option were examined. The first analysis is the pure form of this option and does not permit districts to raise their current local tax rates to make up for any lost revenues. The other three models allow districts a limited local liberty over their operating tax rate (OTR) to make up for lost revenues.

The second model allows a limited local liberty which enables districts to raise their OTR just enough to offset lost revenues, up to a maximum rate of $1.70 for elementary districts, $1.70 for high school districts, and $3.05 for unit districts. These are roughly the current allowable limits which school districts can raise their tax rates to without referendum.

The third model of this option allows a limited local liberty which enables districts to raise their OTR just enough to offset lost revenues, up to a maximum rate of $4.28 for elementary districts, $4.28 for high school districts, and $5.10 for unit districts. These rates are roughly the maximum allowable rates even with the approval of a district's voters.

The fourth option allows a limited local liberty which enables districts to raise their OTR just enough to offset lost revenues, up to a maximum rate of $4.50 for elementary districts, $2.00 for high school districts, and $6.50 for unit districts. These levels of assessment provide equitable tax rates between district types.

Table 5 and 6 compare the four variations of this option to the current funding system in terms of both student equity and taxpayer equity using the ratio of the 95th percentile district to the 5th percentile district. As defined by the EdEquity Coalition, equity on these measures is a ratio of 1.5:1 or less.

**TABLE 5**

| DIST. TYPE | STUDENT REVENUE EQUITY | | | | |
|---|---|---|---|---|---|
| | CURRENT | NO NEW TAX | W/O REFER. | W/REFER. | SIM. HIGH |
| ELEM. | 2.48:1 | 1.46:1 | 1.48:1 | 1.88:1 | 1.90:1 |
| H.S. | 2.38:1 | 1.58:1 | 1.57:1 | 2.06:1 | 1.61:1 |
| UNIT | 1.38:1 | 1.15:1 | 1.15:1 | 1.16:1 | 1.19:1 |

Note: W/O REFER. = local liberty which does not require voter approval.
W/ REFER. = local liberty which requires voter approval.
SIM. HIGH = local liberty cap of $4.50 for elem., $2.00 for high schools, and $6.50 for units.

**TABLE 6**

| DIST. TYPE | TAXPAYER EQUITY | | | |
|---|---|---|---|---|
| | CURRENT | W/O REFER. | W/REFER. | SIM. HIGH |
| ELEM. | 2.15:1 | 1.93:1 | 2.60:1 | 2.73:1 |
| H.S. | 1.85:1 | 1.74:1 | 2.15:1 | 1.74:1 |
| UNIT | 1.61:1 | 1.57:1 | 1.59:1 | 1.59:1 |

Note: W/O REFER. = local liberty which does not require voter approval.
W/ REFER. = local liberty which requires voter approval.
SIM. HIGH = local liberty cap of $4.50 for elem., $2.00 for high schools, and $6.50 for units.

Table 7 shows the number of school districts which gained or lost revenues per weighted student at a foundation level of $2,749 under all three local liberty variations of this option. Those school districts classified as "Large Gain" increased revenues by more than $250 per weighted student, while "Small Gain" districts had increases of $0 to $250 per weighted student. Districts classified as "Large Loss" had decreases in revenues of more than $250 per weighted student, while "Small Loss" districts had decreases of $1 to $250 per weighted student.

Because of the shift in the property tax base from a local taxing authority to state authority, at a $2,749 foundation level and a limited local liberty cap set at the level not requiring a referendum, 263 districts would lose some amount of state and local education revenues. When districts' limited local liberty cap was raised to the level requiring a referendum, the number of districts losing some amount of revenues decreased significantly to a new total of 94 districts. Finally, when the local liberty was set at the "simulated high" level, the number of districts losing some amount of education revenues increased to 145 districts.

**TABLE 7**

| DIST. TYPE | DISTRICTS GAINING REVENUE | | | | | | DISTRICTS LOSING REVENUE | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | SMALL GAIN | | | LARGE GAIN | | | SMALL LOSS | | | LARGE LOSS | | |
| | W/O | W/ | SIM. HI | W/O | W/ | SIM. HI | W/O | W/ | SIM. HI | W/O | W/ | SIM. HI |
| ELEM. | 81 | 172 | 174 | 193 | 193 | 193 | 34 | 16 | 18 | 108 | 35 | 31 |
| H.S. | 40 | 90 | 43 | 15 | 15 | 15 | 16 | 5 | 33 | 44 | 5 | 42 |
| UNIT | 131 | 159 | 171 | 235 | 235 | 235 | 36 | 21 | 15 | 25 | 12 | 6 |
| ALL DISTS. | 252 | 421 | 388 | 443 | 443 | 443 | 86 | 42 | 66 | 177 | 52 | 79 |

Note: W/O REFER. = local liberty which does not require voter approval.
W/ REFER. = local liberty which requires voter approval.
SIM. HI = local liberty cap of $4.50 for elem., $2.00 for high schools, and $6.50 for units.

## County Assumption

The county assumption plan aggregates district finances at the county level for the purpose of local property tax levies and utilization of the general state aid formula. Rather than each individual district levying its own tax rate against property valuation within its district boundaries, all property valuation within the county is pooled and a single tax rate is levied against it. Revenues are then distributed to individual districts in proportion to their number of weighted students. Application of the general state aid formula works similarly. Rather than individual districts calculating their own grant in aid total, statistics are aggregated at the county level and the county receives a single distribution characteristic of the county as a whole. State monies coming to the county are then passed on to individual districts in proportion to their number of weighted students.

The advantage of county-wide aggregation for financial purposes is that it very nearly eliminates the disparity in funding between districts within each county. Presently, districts with extremely high and extremely low property wealth exist side by side within many counties. Under the present system, a rich district is able to raise large amounts of funds with a low tax rate while an adjacent district may have very high tax rates and be able to raise only small amounts of money because of low property valuation. Under a county-wide property tax, the educational system would gain access to large numbers of presently under-taxed properties. Because highly valued properties within a county would now be subject to taxation to meet the needs of the entire county rather than those of a single district, most of these properties would be subject to a higher tax rate than that previously assessed, and their owners would bear a fairer share of the total tax burden.

The county assumption plan does move districts toward funding equity both with respect to taxpayer burden and student revenues. However, some large disparities would still exist between counties having significant industrial, manufacturing and residential wealth, and those that do not have such a tax base. Table 8 shows that the student revenue equity ratios do drop to under 2 to 1, at 1.99:1 for elementary districts and 1.93:1 for high school districts. The unit district 95th to 5th percentile ratio rises slightly to 1.41:1.

**Table 8**
**Variation in Revenues Per Pupil**
**County Assumption**

| DIST. TYPE | CURRENT | PERCENTILES | | | | | NEW RATIO |
|---|---|---|---|---|---|---|---|
| | 95th – 5th | 95th | 90th | 50th | 10th | 5th | 95th – 5th |
| Elementary | 2.48:1 | $4891 | $4019 | $3144 | $2491 | $2454 | 1.99:1 |
| High School | 2.38:1 | 4843 | 3846 | 3131 | 2557 | 2514 | 1.93:1 |
| Unit | 1.38:1 | 3444 | 3104 | 2611 | 2434 | 2396 | 1.41:1 |

With respect to taxpayer equity, the 95th and 5th percentile counties had a tax rate ratio of 1.43:1. This is a significant improvement over the previous tax rate ratios of 2.15:1 for elementary districts, 1.85:1 for high school districts, and 1.61:1 for unit districts.

The county assumption plan also is extremely helpful in addressing funding adequacy problems. Hundreds of districts beneath the average in property valuation per student receive the benefits of property valuations in other parts of the county that were previously financially inaccessible. Further, districts which currently do not tax at the qualifying rate now would be forced to bear an equal share in the costs of educating their children.

In simulating this option, the median tax rate in each county was utilized (see Appendix A for the tax rate used for each county). Local economic and political conditions would likely lead counties to establish rates either higher or lower than the medians used in this study. The county-wide rate could be set in several different ways. For example, county school boards could be established which, within limits, could set tax levies. In order to set rates above the limit, county voter approval through referendum could be required. A further ceiling for referendum approved increases could also be established.

For the simulation reported here, the use of the median tax rate produced 552 school districts that would receive increased funding and 407 that would receive less. However, increasing the tax rate by even a few cents per county creates many more districts which would receive additional revenue. In some counties, using the median rate is clearly inappropriate as it results in a lower effective tax rate for high income/high tax rate districts than the voters of those districts had already chosen to assess upon themselves.

As the county-wide aggregation of property helps some districts, it would hurt others by forcing them to share property valuations over which they previously held a monopoly. High property value districts would lose substantial amounts of local revenue. One possibility that would reduce the shock to these districts would be for the state to fund a hold-harmless provision which could be gradually phased out over several years. Another option would be to aggregate non-residential property county-wide, but allow districts to keep residential property and levy taxes against it as they wish.

Applying the median tax rate per county results in the movement of approximately $300 million. Essentially, this amount of money is redistributed from high wealth districts to low wealth ones. To hold all school districts harmless from loss would cost approximately $311 million.

Table 9 shows the effect of this simulation on one district and demonstrates the fairly dramatic effects the County Assumption option could have on school district financing. Ogle County is dominated in terms of property value by the presence of the Byron nuclear generating plant. Presently, the tax base created by the plant accrues solely to Byron Community Unit School District. The district is able to generate revenues of more than $8,000 per pupil while neighboring districts have only $2,000 to $3,000 per pupil. County

assumption would result in the sharing of Byron's property wealth, resulting in average funding per weighted pupil throughout the county of about $3,500 excluding state and federal categorical grants. There are small variations in funding in this simulation which reflect small differences in Corporate Personal Property Replacement Tax receipts.

**Table 9**

## County Assumption Simulation

**(Ogle County)**

| District | | Old Tax Rate | County-wide Tax Rate | District EAV | Old Rev Per Pupil | New Rev Per Pupil | Gain/ (Loss) |
|---|---|---|---|---|---|---|---|
| Kings Consolidated Elem | #144 | 2.318 | 3.600 | $9,601,707 | $2,659 | $3,457 | **$798** |
| Creston Elem | #161 | 2.598 | 3.600 | 9,165,755 | 2,885 | 3,401 | **516** |
| Rochelle Twp HS | #212 | 1.849 | 3.600 | 114,765,067 | 3,334 | 3,676 | **342** |
| Oregon Community Unit | #220 | 3.560 | 3.600 | 56,827,849 | 2,775 | 3,545 | **770** |
| Forrestville Valley Unit | #221 | 3.604 | 3.600 | 47,241,013 | 2,741 | 3,430 | **689** |
| Polo Community Unit | #222 | 2.961 | 3.600 | 41,165,732 | 2,484 | 3,444 | **960** |
| Meridian Community Unit | #223 | 3.841 | 3.600 | 45,012,785 | 2,791 | 3,440 | **649** |
| Byron Community Unit | #226 | 1.802 | 3.600 | 487,818,727 | 8,261 | 3,462 | **(4,799)** |
| Rochelle Consolidated Elem | #231 | 2.503 | 3.600 | 70,233,395 | 2,672 | 3,558 | **886** |
| Mount Morris Unit | #261 | 3.814 | 3.600 | 26,965,197 | 2,825 | 3,516 | **691** |
| Eswood Elem | #269 | 2.464 | 3.600 | 13,101,583 | 3,263 | 3,505 | **242** |
| **County Assumption (Total/Ave.)** | | | **3.600** | **$798,392,000** | | **3,500** | **159** |

* Overlapping Elementary and High School Tax Rates are added to determine median

**Appendix A**

# COUNTY TAX RATES USED FOR THE COUNTY ASSUMPTION OPTION

| COUNTY | TAX RATE per $100 EAV | | COUNTY | TAX RATE per $100 EAV |
|---|---|---|---|---|
| ADAMS | $2.80 | | LAWRENCE | $3.10 |
| ALEXANDER | $2.90 | | LEE | $3.80 |
| BOND | $2.90 | | LIVINGSTON | $3.90 |
| BOONE | $3.60 | | LOGAN | $4.00 |
| BUREAU | $2.80 | | MACON | $2.90 |
| CALHOUN | $3.70 | | MACOUPIN | $2.90 |
| CARROLL | $4.00 | | MADISON | $3.20 |
| CASS | $3.50 | | MARION | $3.30 |
| CHAMPAIGN | $3.20 | | MARSHALL | $3.30 |
| CHICAGO | $3.60 | | MASON | $3.70 |
| CHRISTIAN | $3.50 | | MASSAC | $3.00 |
| CLARK | $2.90 | | MCDONOUGH | $3.30 |
| CLAY | $3.00 | | MCHENRY | $4.00 |
| CLINTON | $3.10 | | MCLEAN | $3.60 |
| COLES | $3.20 | | MENARD | $3.30 |
| COOK NORTH | $4.80 | | MERCER | $2.90 |
| COOK SOUTH | $4.90 | | MONROE | $2.90 |
| COOK MIDDLE | $4.10 | | MONTGOMERY | $3.30 |
| CRAWFORD | $3.30 | | MORGAN | $3.00 |
| CUMBERLAND | $3.10 | | MOULTRIE | $3.20 |
| DAKALB | $3.90 | | OGLE | $3.60 |
| DEWITT | $2.70 | | PEORIA | $3.40 |
| DOUGLAS | $3.00 | | PERRY | $3.80 |
| DUPAGE | $4.00 | | PIATT | $2.80 |
| EDGAR | $3.00 | | PIKE | $3.30 |
| EDWARDS | $2.80 | | POPE | $3.60 |
| EFFINGHAM | $2.80 | | PULASKI | $3.40 |
| FAYETTE | $2.90 | | PUTNAM | $2.50 |
| FORD | $4.00 | | RANDOLPH | $2.80 |
| FRANKLIN | $3.60 | | RICHLAND | $3.10 |
| FULTON | $3.10 | | ROCK ISLAND | $3.40 |
| GALLATIN | $3.70 | | SALINE | $3.20 |
| GREENE | $2.70 | | SANGAMON | $3.10 |
| GRUNDY | $3.50 | | SCHUYLER | $2.80 |
| HAMILTON | $3.30 | | SCOTT | $3.30 |
| HANCOCK | $3.20 | | SHELBY | $3.20 |
| HARDIN | $2.80 | | ST CLAIR | $3.60 |
| HENDERSON | $3.20 | | STARK | $3.60 |
| HENRY | $3.20 | | STEPHENSON | $3.40 |
| IROQUOIS | $3.90 | | TAZEWELL | $3.40 |
| JACKSON | $3.40 | | UNION | $3.50 |
| JASPER | $2.90 | | VERMILLION | $3.50 |
| JEFFERSON | $3.20 | | WABASH | $3.00 |
| JERSEY | $2.80 | | WARREN | $3.30 |
| JO DAVIESS | $3.10 | | WASHINGTON | $3.60 |
| JOHNSON | $3.40 | | WAYNE | $3.60 |
| KANE | $3.60 | | WHITE | $3.60 |
| KANKAKEE | $3.20 | | WHITESIDE | $3.60 |
| KENDALL | $3.40 | | WILL | $3.60 |
| KNOX | $3.10 | | WILLIAMSON | $3.20 |
| LAKE | $4.00 | | WINNEBAGO | $3.60 |
| LASALLE | $3.80 | | WOODFORD | $3.30 |